MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2019/2020

BAC1634 – FINANCIAL ACCOUNTING REPORTING 1

(All Sections/Groups)

11 JUNE 2020
9:00 a.m. to 12:00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 6 pages with 4 questions.

2. Attempt **ALL FOUR** questions. The distribution of the marks for each question is given.

3. Please write your answers in the Answer Booklet provided.

QUESTION 1

a) Identify the following regulatory bodies and explain their roles with regard to financial reporting practice in Malaysia.

i. Malaysian Accounting Standards Board (MASB). (2 marks)
ii. Malaysian Institute of Accountants (MIA). (2 marks)
iii. Bank Negara Malaysia (BNM). (2 marks)
iv. Securities Commission (SC). (2 marks)

b) Explain the difference between the conceptual framework and financial reporting standards and how are they related? (8 marks)

c) The IASB's *Conceptual Framework* refers to two fundamental qualitative characteristics: relevance and faithful representation. Explain the two fundamental qualitative characteristics of financial information. (4 marks)

(Total: 20 marks)

QUESTION 2

Maju Bhd manufactures and sells metal products. The following balances have been extracted from the nominal ledger of Maju Bhd at 31 December 2019 and it is anticipated that the financial statements will be authorised for issue on 31 March 2020.

	Debit RM'000	Credit RM'000
Ordinary shares		46,000
Preference shares		4,000
Retained profits at 1 January 2019		29,360
Trade payable		10,000
Trade receivable	6,000	
Bank balance	3,000	
Interim dividends paid:		
- Preference dividends	160	
- Ordinary dividends	100	
Tax under provision in year 2018	100	
Tax paid for current year	3,500	
Investment in equity shares (held for trading)	1,800	
Investment in loan stock (long term)	1,200	
Freehold land	38,000	
Building (at cost)	82,000	
Plant and equipment (at cost)	24,000	

Continued …….

Accumulated depreciation at 31 December 2019:		
- Buildings		52,000
- Plant and equipment		10,000
Revenue		40,000
Cost of sales	20,000	
Inventory at 31 December 2019	4,000	
Selling and distribution expenses	2,000	
Administrative expenses	3,000	
Directors' salaries	400	
Auditors' fees	500	
Dividend received		200
Interest income		100
Depreciation expenses:		
- Buildings	600	
- Plant and equipment	1,300	
	191,660	191,660

Additional information:

i) Depreciation is charged as follows:

Cost of sales	50%
Administrative expenses	30%
Selling expenses	20%

ii) At year-end the fair value of investment in equity shares is RM1,840,000. There is no change in the value of the loan stock investment.

iii) The tax expense for the year is RM4,700,000

Required:

Prepare the following for Maju Bhd in compliance with MFRS 101 *Presentation of Financial Statements:*

a) A statement of financial performance for the year ended 31 December 2019. (10 marks)

b) A statement of financial position as at 31 December 2019. (10 marks)

(Total: 20 marks)

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QUESTION 3

PART A

On 1 April 2019 White Bhd issued 1 million 5% convertible loan stock at RM1 million. The loan stock is redeemable at RM1 million for cash on 31 March 2023, or are convertible into 1 million new ordinary shares at that date. The interest is paid on 31 March each year.

An interest rate on similar loan stock without the conversion option is 7% pa. The expectation is that loan holders will choose the conversion option rather than redeeming the loan stock.

Required:

a) Calculate the equity and liability components of the 5% convertible loan stock on 1 April 2019. (3 marks)

b) Prepare the journal entries to record the transaction on 1 April 2019. (1.5 marks)

c) Show the extracts from the statements of financial performance and the statements of financial position for the year 31 March 2020. (2.5 marks)

d) Assuming that all the loan stock holders choose to convert all their interests into ordinary shares on maturity, show the journal entries to record the transaction. (3 marks)

PART B

On 1 April 2019 Bronze Bhd had 200,000 ordinary shares in issue at RM200,000. Two share issues were made during the year ended 31 March 2020:

- On 1 July 2019 a 1 for 5 rights issue was made at RM1.70 per share. The market price of one Bronze Bhd share immediately before the rights issue was RM2.12.

- On 1 January 2020 65,000 new ordinary shares were issued at their market price of RM1.80 each.

The total proceeds from both share issues were debited to cash and credited to ordinary share capital. The profit after tax for the year was RM17,950.

Required:

a) Calculate basic earnings per share for the year ended 31 March 2020. (8 marks)

b) Briefly explain the treatment of the rights issue in the above calculation. (3 marks)

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PART C

The following balances have been extracted from the nominal ledger of Trio Bhd at 31 December 2019:

	Valuation (on 1 January 2017)	Accumulated depreciation at 31 December 2018	Carrying Amount at 31 December 2018
	RM	RM	
Land and buildings	500,000	80,000	420,000
Plant and equipment	175,000	70,000	105,000

The following additional information is available:

- Trio Bhd measures its property, plant and equipment under the revaluation model. On 1 January 2019 the company's land and buildings were valued at RM450,000 (land RM100,000) and its plant and equipment at RM85,000. This valuation has not been reflected in the balance above.

- On 1 January 2019 the remaining useful lives of the buildings and plant and equipment were reassessed at 20 years and four years respectively. There were no additions to or disposals of property, plant and equipment in the year ended 31 December 2019.

- The revaluation surplus at 31 December 2018 included RM200,000 in respect of land and buildings, and RM9,000 attributable to revaluation surplus of plant and equipment.

- Trio Bhd does not make annual transfers between the revaluation surplus and retained earnings.

Required:

a) Show the journal entries to record the revaluation on 1 January 2019. (5.5 marks)

b) Calculate the depreciation charge for the year ended 31 December 2019. (2 marks)

c) Prepare the extract statement of financial performance and statement of financial position for the year ended 31 December 2019 for Trio Bhd. (4.5 marks)

d) How does an entity account for the revaluation surplus and deficit under the revaluation model? (4 marks)

(Total: 37 marks)

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QUESTION 4

PART A

Committed to a plan to sell its building in Selayang and planning to buy a new one in Petaling Jaya, Baca Bhd classified the building as held for sale at year end of 2018.

a) During 2019, the market conditions that existed in 2018, when the building was classified initially as held for sale, deteriorated, and as a result, the building was not sold by the end of 2019. During 2019, Baca Bhd actively looking for buyers but did not receive any reasonable offers to purchase the building and, in response, reduced the price.

b) During the following year, 2020, market conditions deteriorated further due to Covid 19, and the building was not sold by 2020. Baca Bhd believe that the market conditions will improve in near future and has not further reduced the price of the building. The building continues to be held for sale, but at a price in excess of its current fair value.

Required:

Discuss the classification of the building at the end of year 2019 and 2020. (6 marks)

PART B

Given below are independent situations.

Required:

For each situation, discuss how the entity should account for the transactions in accordance with MFRS 137 *Provision, Contingent Liabilities and Contingent Assets,* giving reasons for your answers. Assume that the accounting year end is 31 March 2020.

a) During the year to 31 March 2020, ABC Bhd commenced a restructuring of its refining division. A formal plan was publicly announced on 1 January 2020 and the six-month programme of restructuring began on 1 March 2020. At 31 March 2020 the anticipated further costs to be incurred were:

	RM
Redundancy costs	300,000
Lease termination costs	50,000
Staff retraining and relocation	100,000
	450,000

(2.5 marks)

Continued …….

b) On 31 March 2020 DEF Bhd vacated a property which it rents under a non-cancellable contract. The terms of the contract do not allow DEF Bhd to sub-let the property. The property has an annual rent of RM20,000, paid in arrears, and the contract expires on 31 March 2023. The relevant discount rate has been assessed as 7% pa. (2.5 marks)

c) In March 2019, GHI Bhd had been the target of a successful cyberattack and, as a result, lost confidential customer data. The customers affected have taken legal action against GHI Bhd. At 31 March 2019, GHI Bhd made a provision for RM150,000 based on the information available at that date. The case had been expected to be settled quickly but more claimants came forward. The case is due to come to court shortly and GHI's lawyers believe that the case will be decided against GHI Bhd and that the damages payable will be RM210,000. (2.5 marks)

d) During the year, JKL Bhd started offering a one-year repair warranty with its luxury products. If minor repairs were required for all the relevant goods sold the cost would be RM65,000, compared to RM157,000 if major repairs were required. JKL Bhd estimates that 20% of the goods sold will require minor repairs and 5% will require major repairs. (2.5 marks)

PART C

Given below are independent situation. Determine whether the following transactions is an adjusting or non-adjusting event. Explain your answers and the impact on financial statements.

a) When CCM Bhd was in the process of finalizing the financial statements for the year ended 31 December 2019 in early February 2020, Alex, the managing director of CCM Bhd, discovered that the general manager of one of the subsidiaries of CCM Bhd had misappropriated cash of RM2.5 million, which represented a material amount of asset of CCM Bhd. Further investigation of the matter indicated that the money was stolen in early January 2020. (3.5 marks)

b) MMC Bhd is engaged in the property development business and is involved in a claim by its contractors for the late handover of the construction site. A contractor filed a claim against MMC Bhd for an amount of RM5 million in the high court during the year ended 31 December 2019. The management of MMC has assessed the likelihood of the claim's success and considered the claim of no merit. It intends to defend its position rigorously. MMC has disclosed this fact as a note to the financial statement. MMC's financial statements were authorized for issue on 15 March 2020 and were laid before the shareholders on 29 April 2020. On 10 June 2020, a judgement was awarded in favor of the contractor by the court. On 13 June 2020, MMC paid the contractor an amount of RM4 million as a final and full settlement. (3.5 marks)

(Total: 23 marks)

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